



Thursday, 18 January 2007

Dear Shareholder,

**RE: Oakland Investments (Aus) Limited (Oakland)
Company Report
October to December, 2006**

First of all, we would like to take this opportunity to wish you and your families the very best for the exciting year ahead.

2007 is shaping up to be another successful year for Oakland. I am pleased to report that coupon rates for all respective share classes have been paid for this most recent quarter.

As you may be aware, this is the first quarter since inception that Oakland has not paid profit distributions over and above the coupon rates stated in the Prospectus. However, this is no cause for alarm. Since Oakland commenced operations, it has consistently outperformed expectations on a quarterly basis, with all Investors receiving dividend distributions well above their coupon rate interest payments and most notably, well in excess of the vast majority of competitor funds.

Whilst it has been an excellent achievement for the Company to have consistently outperformed expectations on a quarterly basis, Oakland may not always be able to pay additional profit distributions. Given that Oakland's coupon rate is higher than any of its direct competitors, the Directors' primary objective is to maintain long-term consistency in paying the coupon rate, with profit distributions paid when available, as an additional bonus.

In stating this, the Directors are still confident in outperforming the coupon rate over time and as a result, believe they will continue to pay additional profit distributions in the future. However, the manner in which they are paid is important to note. Given that Oakland's average loan term across the entire Loan Book has increased to approximately 4.5 months and that default interest on outstanding loans can take up to 12 months to recover, there can be some inconsistency in income to the Company. This can translate into mild "lumpiness" in returns. While Oakland aims to distribute coupon rates on a quarterly basis, profit distributions are more likely to occur every six months.

During this reporting period, Oakland was able to declare quarterly returns to Shareholders for the period 1 October to 31 December 2006, consisting of:

**2.27% for A Class Shareholders;
2.65% for B1 Class Shareholders; and
3.15% for C1 Class Shareholders.**

As stated above, this quarterly return only includes the coupon rate, and is calculated on a prorata basis. Coupon rate and profit distribution amounts would normally be received into Shareholders bank accounts in two separate transactions.

During the past 12 months from 1 January to 31 December 2006, Oakland declared the following returns to Shareholders;

9.78% for A Class Shareholders;
8.17% for B1 Class Shareholders (commenced from June 2006); and
14.33% for C1 Class Shareholders.

Another factor which has influenced returns to some degree over the last quarter has been another significant increase in Funds Under Management (FUM) for Oakland, growing to \$21,880,000 by 1 January 2007. This was a 43% increase in FUM for the quarter, following significant increase the quarter previous to that. This places pressure on the Company to grow its lending division at a similar pace; a task which requires considerable time



and resources. However, in highlighting this, the Directors are still confident in the rate at which the Company has grown to date and any future growth will be closely monitored to ensure that both lending and origination are equally capable of managing the increased FUM capacity.

In the last Company Report I also made mention of the introduction of additional team members to the Company. This has resulted in considerable expansion of the origination side of the business in this most recent quarter, in addition to further fine-tuning of credit, research and feasibility sectors. Overall, we are pleased with the current suite of extensive systems and processes that govern our daily decision-making activity.

It is also important to mention that following nine months of negotiations and discussions, Oakland has secured a Letter of Offer from Westpac Bank for a Commercial Bill Line facility that would see Oakland gain access to \$10,000,000 of debt funding for the Company. This funding will allow the expansion of the current Oakland mortgage finance strategy, in addition to providing greater earning potential for the Company via the acquisition of funds at a lower cost.

It is pleasing to note that after extensive questioning and due diligence conducted on Oakland's strategies and processes, Westpac Bank has offered a finance facility normally only reserved for larger companies with longer track records. The Directors view this achievement as a vote of confidence in Oakland's current and future endeavours.

In order for Oakland to incorporate this facility into its current business model, it will require a majority vote from the current Shareholder body at an up-and-coming Extraordinary General Meeting (EGM). Notice of such meeting will be sent out within the next two weeks.

Lending Review

The last quarter has seen a reduction in overall fund utilisation from 87% to 68%. This current level of utilisation is more closely aligned with management's earlier forecasts. Historically, utilisation levels have exceeded forecasts, resulting in greater than expected returns to the Company. As the level of fund utilisation is directly related to revenue generated, a lower utilisation is often reflected by lower revenues and hence, returns to Investors can consequently be reduced.

The predominant drivers of this decreased utilisation have been an influx of FUM during the last quarter, along with a temporary decrease in demand from the market place for bridging finance.

Oakland has had an exceptional 18 months in relation to funding enquiries, which has exceeded management forecasts and subsequent fund utilisation levels. However, this volume of quality funding proposals eased somewhat during the last quarter and despite the best efforts of Oakland's lending team, the market demand for bridging finance was definitely tapered coming into Christmas. It is important to note here that despite the definite easing of the market in this period, Oakland was still able to achieve the majority of its performance benchmarks set by management.

Whilst there was a multitude of funding opportunities presented to Oakland this quarter, which would have seen fund utilisation increase, our Credit and Investment Committees rejected a higher than normal amount of proposals during this period. At no point will this Company ever look to increase fund utilisation and potential revenue capacity at the expense of its extensive due diligence processes.

As has been mentioned in previous reports, the cyclical nature of this business will see periods of surplus in suitable funding proposals followed by definite periods of lower quality proposals that simply do not provide the security required by Oakland in order to advance funds. This is not a concern to Oakland management, as the only effect is on the potential fluctuation of returns. Preservation of capital will always remain the Company's highest priority.

Again, the average Loan to Value Ratio (LVR) of Oakland's Loan Book during this recent quarter remained under 65% LVR. This figure is continually satisfying to report to our Shareholders, as it highlights the quality of the security held by Oakland. The flip side of this however, is the lower the LVR (and the higher the quality of the



security being presented), the lower the rate of interest charged to prospective borrowers. This in turn can reduce potential revenue for the Company. Overall, management is comfortable with its current average LVR, given it reflects the aim of the Company to provide exceptional security in relation to the returns provided to Investors.

The Real Estate market overall continues to be one of conjecture. Whilst most of the press points to a stable market, it is definitely area specific. Buyers are still able to purchase property at competitive prices, hence continuing to reflect a buyers' market. This can in fact ease the need for the style of finance Oakland provides, however, it is also presenting opportunities. Oakland does not foresee any immediate or sudden changes to "general" market conditions which will affect its business.

As we have reported in previous quarters, Average Loan Size also increased again. This continues to provide access to larger funding proposals without increasing the percentage of risk proportioned to individual loans, as they contribute to the overall Loan Book. These larger transactions often present lower LVR's due to the risk assessment guidelines placed on larger transactions by Oakland management and the Investment Committee. These larger transactions are also on a first mortgage basis only.

Table 1 provides a summary and comparison of Oakland's loan portfolio statistics for the previous two quarters.

Table 1 – LENDING SUMMARY

Quarter	Utilisation Rate (Mortgage to Cash Ratio)	Ratio 1 st to 2 nd Mortgages	Average Loan Size	Average Loan to Value ratio
July – September 2006	87.36%	80% First Mortgages	\$724,883.20	62.06%
October – December 2006	68%	84% First Mortgages	\$881,270	60.82%

The last quarter has also seen the recovery of some defaulting loans, with significant progress being made on the recovery of additional outstanding defaulting loans. In total, Oakland currently manages seven defaulting loans in its entire Loan Book, with at least five of these expected to be repaid within the next 60 days. Whilst the Directors do not foresee any capital loss relating to current defaults, they continue to be managed intensely on a daily basis. Some of these loans may also provide additional revenue opportunities within the next 3-6 months.

In summary, Oakland has advanced quite remarkably as a Company over the last quarter. While short-term revenue has slowed temporarily and Company growth has increased substantially, the Directors are confident of returning profit distributions again at the end of the June quarter this year.

As always, we are here to answer any questions you may have. Otherwise, we look forward to seeing you at our EGM.

Regards,

Brook Monahan
Managing Director
Oakland Investments (Aus) Limited